

Senate File 552 - Introduced

SENATE FILE 552

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO SSB 1126)

A BILL FOR

1 An Act relating to individual and corporate income taxes, the
2 insurance premium tax, and including the contingent repeal
3 of the individual income tax, and including retroactive
4 applicability and effective date provisions.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

DIVISION I

FUTURE INDIVIDUAL INCOME TAX RATE CHANGES

Section 1. Section 422.5, subsection 2, paragraph b, subparagraph (2), Code 2023, is amended to read as follows:

(2) (a) (i) (A) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, the alternate tax rate is 6.00 percent.

(B) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, the alternate tax rate is 5.70 percent.

(C) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, the alternate tax rate is ~~5.20~~ 4.80 percent.

(D) For the tax year beginning on or after January 1, 2026, but before January 1, 2027, the alternate tax rate is 3.95 percent.

(E) For the tax year beginning on or after January 1, 2027, but before January 1, 2028, the alternate tax rate is 3.35 percent.

(ii) This subparagraph division (a) is repealed January 1, ~~2026~~ 2028.

(b) For tax years beginning on or after January 1, ~~2026~~ 2028, the alternate tax rate is ~~4.40~~ 3.00 percent.

Sec. 2. Section 422.5, subsection 3, paragraph b, subparagraph (2), Code 2023, is amended to read as follows:

(2) (a) (i) (A) For the tax year beginning on or after January 1, 2023, but before January 1, 2024, the alternate tax rate is 6.00 percent.

(B) For the tax year beginning on or after January 1, 2024, but before January 1, 2025, the alternate tax rate is 5.70 percent.

(C) For the tax year beginning on or after January 1, 2025, but before January 1, 2026, the alternate tax rate is ~~5.20~~ 4.80 percent.

(D) For the tax year beginning on or after January 1, 2026,

1 but before January 1, 2027, the alternate tax rate is 3.95
2 percent.

3 (E) For the tax year beginning on or after January 1, 2027,
4 but before January 1, 2028, the alternate tax rate is 3.35
5 percent.

6 (ii) This subparagraph division (a) is repealed January 1,
7 2026 2028.

8 (b) For tax years beginning on or after January 1, ~~2026~~
9 2028, the alternate tax rate is ~~4.40~~ 3.00 percent.

10 Sec. 3. Section 422.5A, subsection 1, paragraph a,
11 subparagraph (3), Code 2023, is amended to read as follows:

12 (3) For the tax year beginning on or after January 1, 2025,
13 but before January 1, 2026:

14 (a) On taxable income from 0 through \$12,000, the rate of
15 ~~4.40~~ 4.00 percent.

16 (b) On taxable income exceeding \$12,000, the rate of ~~4.82~~
17 4.40 percent.

18 Sec. 4. Section 422.5A, subsection 1, paragraph b,
19 subparagraph (3), Code 2023, is amended to read as follows:

20 (3) For the tax year beginning on or after January 1, 2025,
21 but before January 1, 2026:

22 (a) On taxable income from 0 through \$6,000, the rate of
23 ~~4.40~~ 4.00 percent.

24 (b) On taxable income exceeding \$6,000, the rate of ~~4.82~~
25 4.40 percent.

26 Sec. 5. 2022 Iowa Acts, chapter 1002, section 20, is amended
27 to read as follows:

28 SEC. 20. Section 422.5, subsection 1, paragraph a, Code
29 2022, is amended to read as follows:

30 a. (1) A tax is imposed upon every resident and nonresident
31 of the state which tax shall be levied, collected, and paid
32 annually upon and with respect to the entire taxable income as
33 defined in this subchapter at ~~a rate of three and nine-tenths~~
34 ~~percent.~~ the following rates in the following tax years:

35 (a) For the tax year beginning on or after January 1, 2026,

1 but before January 1, 2027, the rate of 3.55 percent.

2 (b) For the tax year beginning on or after January 1, 2027,
3 but before January 1, 2028, the rate of 2.95 percent.

4 (c) For tax years beginning on or after January 1, 2028, the
5 rate of 2.50 percent.

6 (2) (a) Notwithstanding the rate in subparagraph (1), the
7 department of revenue shall determine the individual income
8 tax rate as provided in this subparagraph. The tax rate in
9 subparagraph (1) shall remain in effect until the rate is
10 adjusted pursuant to this subparagraph. A rate adjusted in
11 this subparagraph shall remain in effect until the rate is
12 adjusted again pursuant to this subparagraph.

13 (b) By November 1, 2029, and by November 1 each year
14 thereafter, until the individual income tax rate equals zero,
15 the department of management shall determine the amount of
16 moneys available in the taxpayer relief fund in section 8.57E,
17 and the net individual income tax receipts at the close of the
18 preceding fiscal year. The department of revenue shall adjust
19 and apply a new rate based upon the amount of moneys available
20 in the taxpayer relief fund as provided in subparagraph
21 division (c).

22 (c) (i) The rate shall be adjusted in such a way that the
23 rate would have generated an amount equal to the net receipts
24 generated from the rate in the preceding fiscal year less the
25 amount available in the taxpayer relief fund in section 8.57E
26 that is used in the calculation in this subparagraph division.

27 (ii) The rate shall not be adjusted unless the rate is able
28 to be adjusted at least one-tenth of one percent. The rate,
29 when adjusted, shall be rounded down to the nearest one-tenth
30 of one percent.

31 (iii) If a determination is made by the department of
32 revenue that the rate is subject to adjustment, the department
33 of revenue shall adjust the rate specified in subparagraph
34 (1), or if the rate has been previously adjusted, adjust the
35 previously adjusted rate.

1 (d) If an adjustment is made pursuant to subparagraph
2 division (c), the amount of moneys in the taxpayer relief fund
3 used in the calculation in subparagraph division (c) shall be
4 transferred to the general fund of the state in the fiscal year
5 the rate is adjusted.

6 (e) If a rate is adjusted pursuant to subparagraph division
7 (c), the director of revenue shall cause an advisory notice
8 containing the new individual income tax rate to be published
9 in the Iowa administrative bulletin and on the internet site
10 of the department of revenue. The calculation and publication
11 of the adjusted tax rate by the director of revenue is exempt
12 from chapter 17A, and shall be submitted for publication by the
13 first December 31 following the determination date to adjust
14 the rate.

DIVISION II

FUTURE CORPORATE INCOME TAX RATE CHANGES

17 Sec. 6. Section 422.33, subsection 1, paragraph b,
18 subparagraph (1), subparagraph division (b), Code 2023, is
19 amended to read as follows:

(b) By November 1, 2022, and by November 1 each year thereafter, the department of management shall determine the net corporate income tax receipts for the fiscal year preceding the determination date. If net corporate income tax receipts for the preceding fiscal year exceed ~~seven~~ six hundred eighty million dollars, the department of revenue shall adjust and apply new corporate income tax rates as provided in subparagraph (2).

28 Sec. 7. Section 422.33, subsection 1, paragraph b,
29 subparagraph (2), subparagraph division (a), Code 2023, is
30 amended to read as follows:

(a) If a determination has been made that net corporate income tax receipts for the preceding fiscal year exceeded ~~seven~~ six hundred eighty million dollars, the department of revenue shall adjust the tax rates specified in paragraph "a", subparagraphs (3) and (4), and apply the adjusted rates for tax

1 years beginning on or after the next January 1 following the
2 determination date.

3 Sec. 8. Section 422.33, subsection 1, paragraph b,
4 subparagraph (2), subparagraph division (b), subparagraph
5 subdivision (i), Code 2023, is amended to read as follows:

6 (i) The tax rates subject to adjustment shall be adjusted
7 in such a way that when combined with all the other rates
8 specified in paragraph "a", the tax rates would have generated
9 net corporate income tax receipts that equal ~~seven~~ six hundred
10 eighty million dollars in the preceding fiscal year.

11 Sec. 9. Section 422.33, subsection 1, paragraph b,
12 subparagraph (2), subparagraph division (b), subparagraph
13 subdivision (iii), Code 2023, is amended to read as follows:

14 (iii) The tax rates adjusted pursuant to this paragraph
15 shall not be adjusted below ~~five and one-half~~ four and
16 three-fourths percent.

17 Sec. 10. 2022 Iowa Acts, chapter 1002, sections 57 and 58,
18 are amended to read as follows:

19 SEC. 57. [Section 422.33, subsection 1](#), Code 2022, is amended
20 by striking the subsection and inserting in lieu thereof the
21 following:

22 1. A tax is imposed annually upon each corporation doing
23 business in this state, or deriving income from sources within
24 this state, in an amount computed by applying the rate of ~~five~~
25 ~~and one-half~~ four and three-fourths percent to the net income
26 received by the corporation during the income year.

27 SEC. 58. CONTINGENT EFFECTIVE DATE. This division of
28 this Act takes effect on the first January 1 after each rate
29 of taxation on the net income received by a corporation is
30 equalized to equal ~~five and one-half~~ four and three-fourths
31 percent pursuant to [section 422.33, subsection 1](#), paragraph
32 "b", as amended by this Act. The director of revenue shall
33 inform the Code editor upon the occurrence of this contingency.

34 DIVISION III

35 INSURANCE PREMIUM TAX

1 Sec. 11. Section 432.1, subsection 2, Code 2023, is amended
2 to read as follows:

3 2. The "*applicable percent*" for purposes of subsection 1 of
4 this section and section 432.2 is the following:

5 a. For calendar years beginning before the 2003 calendar
6 year, two percent.

7 b. For the 2003 calendar year, one and three-fourths
8 percent.

9 c. For the 2004 calendar year, one and one-half percent.

10 d. For the 2005 calendar year, one and one-fourth percent.

11 e. For the 2006 ~~and subsequent~~ calendar years year through
12 the 2024 calendar year, one percent.

13 f. For the 2025 calendar year, ninety-five hundredths of one
14 percent.

15 g. For the 2026 and subsequent calendar years, nine-tenths
16 of one percent.

17 Sec. 12. Section 432.1, subsection 4, Code 2023, is amended
18 to read as follows:

19 4. The "*applicable percent*" for purposes of subsection 3 is
20 the following:

21 a. For calendar years beginning before the 2004 calendar
22 year, two percent.

23 b. For the 2004 calendar year, one and three-fourths
24 percent.

25 c. For the 2005 calendar year, one and one-half percent.

26 d. For the 2006 calendar year, one and one-fourth percent.

27 e. For the 2007 ~~and subsequent~~ calendar years year through
28 the 2024 calendar year, one percent.

29 f. For the 2025 calendar year, ninety-five hundredths of one
30 percent.

31 g. For the 2026 and subsequent calendar years, nine-tenths
32 of one percent.

33 DIVISION IV

34 SALE OF CERTAIN QUALIFIED STOCK — NET CAPITAL GAIN EXCLUSION

35 Sec. 13. Section 422.7, subsection 43, paragraph c,

1 subparagraph (2), Code 2023, is amended to read as follows:

2 (2) "*Employee-owner*" means an individual who owns capital
3 stock in a qualified corporation for at least ten years, which
4 capital stock was acquired by the individual while employed and
5 on account of employment by ~~such~~ any qualified corporation for
6 at least ten cumulative years.

7 Sec. 14. Section 422.7, subsection 43, paragraph c,
8 subparagraph (4), subparagraph division (b), Code 2023, is
9 amended to read as follows:

10 (b) "*Qualified corporation*" includes any member of an Iowa
11 affiliated group if the Iowa affiliated group includes a member
12 that has employed individuals in this state for at least ten
13 years. For purposes of this subparagraph division, "*Iowa*
14 *affiliated group*" means an affiliated group that ~~has made~~ is
15 eligible to make a valid election to file an Iowa consolidated
16 income tax return under section 422.37 in the year in which
17 the deduction under this subsection is claimed. "*Member*"
18 includes any entity that is eligible to be included in the a
19 consolidated return under section 422.37, subsection 2, for the
20 tax year in which the deduction is claimed.

21 Sec. 15. EFFECTIVE DATE. This division of this Act, being
22 deemed of immediate importance, takes effect upon enactment.

23 Sec. 16. RETROACTIVE APPLICABILITY. This division of this
24 Act applies retroactively to January 1, 2023, for tax years
25 beginning on or after that date.

26 EXPLANATION

27 The inclusion of this explanation does not constitute agreement with
28 the explanation's substance by the members of the general assembly.

29 This bill reduces the individual and corporate income tax
30 rates and the insurance premium tax rates.

31 DIVISION I — FUTURE INDIVIDUAL INCOME TAX RATE CHANGES.

32 The bill reduces the individual income tax rates for the tax
33 year beginning January 1, 2025, but before January 1, 2026, as
34 follows:

35 Married filing jointly

1	Income over:	But not over:	Tax rate:
2	1) \$0	\$12,000	4.00%
3	2) \$12,000		4.40%
4	<u>All other filers other than married filing jointly</u>		
5	Income over:	But not over:	Tax rate:
6	1) \$0	\$6,000	4.00%
7	2) \$6,000		4.40%

8 The bill further reduces the 3.90 percent individual flat
9 income tax rate established for tax years beginning on or after
10 January 1, 2026, in 2022 Iowa Acts, chapter 1002, section 20.
11 For the tax year beginning on or after January 1, 2026, but
12 before January 1, 2027, the bill reduces the individual tax
13 rate to 3.55 percent. For the tax year beginning on or after
14 January 1, 2027, but before January 1, 2028, the bill reduces
15 the individual income tax rate to 2.95 percent. For tax years
16 beginning on or after January 1, 2028, the bill reduces the
17 individual income tax rate to 2.50 percent.

18 Currently, an alternate income tax calculation exists in
19 Code section 422.5. The alternate income tax is an alternate
20 method of calculating income tax liability in lieu of the
21 regular income tax calculation for taxpayers with income
22 slightly above the income tax filing thresholds. The alternate
23 method multiplies the taxpayer's taxable income above the
24 income tax filing thresholds in Code section 422.5(2)(b) or
25 422.5(3)(b) by the highest existing individual income tax
26 rate until the taxpayer's tax liability is equal to the tax
27 liability that would have been calculated under the regular
28 income tax calculation method, then after such point the
29 regular income tax calculation with the regular income tax
30 rates are used. The bill phases in changes to the alternate
31 tax rate until the rate is set at 3.00 percent commencing with
32 tax years beginning on or after January 1, 2028.

33 After reducing the individual income tax rate to 2.50
34 percent, the bill establishes a procedure where the individual
35 income tax rate may be adjusted commencing with tax years

1 beginning on or after January 1, 2030. The bill specifies
2 the individual income tax rate shall be adjusted each tax
3 year until the rate is zero, if sufficient funds to make the
4 adjustment are available in the taxpayer relief fund.

5 By November 1, 2029, and by November 1 each year thereafter,
6 the department of management shall determine the amount of
7 moneys available in the taxpayer relief fund, and the net
8 individual income tax receipts at the close of the preceding
9 fiscal year. The department of revenue shall adjust and apply
10 a new individual income tax rate based upon the amount of money
11 available in the taxpayer relief fund. The bill specifies the
12 department of revenue shall adjust and apply a new individual
13 income tax rate in such a way that the rate would have
14 generated an amount equal to the net receipts generated from
15 the rate in the preceding fiscal year less the amount used in
16 the calculation in the taxpayer relief fund.

17 The bill prohibits the rate from being adjusted unless the
18 rate is able to be adjusted at least one-tenth of 1 percent.
19 The rate, when adjusted, shall be rounded down to the nearest
20 one-tenth of 1 percent.

21 The bill requires the moneys in the taxpayer relief fund be
22 transferred to the general fund of the state in the fiscal year
23 the rate is adjusted.

24 If a tax rate is adjusted, the bill requires the director
25 of revenue to cause an advisory notice containing the new
26 individual income tax rate to be published in the Iowa
27 administrative bulletin and on the internet site of the
28 department of revenue. The calculation and publication of the
29 adjusted tax rate by the director of revenue is exempt from
30 Code chapter 17A, and shall be submitted for publication by the
31 first December 31 following the determination date to adjust
32 the tax rates.

33 DIVISION II — FUTURE CORPORATE INCOME TAX RATE CHANGES.

34 Under current law, by November 1 of each year, the department
35 of management shall determine the net corporate income tax

1 receipts for the previous fiscal year, if a determination
 2 has been made that net corporate income tax receipts for the
 3 preceding fiscal year exceeded \$700 million, the department
 4 of revenue shall reduce the corporate tax rates and apply the
 5 adjusted rates for tax years beginning on or after the next
 6 January 1 following such a determination, but the tax rate
 7 shall not be adjusted below 5.50 percent. The bill reduces the
 8 threshold amount for determining if taxes are to be reduced
 9 from \$700 million net corporate income tax receipts to \$680
 10 million net corporate income tax receipts, and reduces the
 11 lowest possible adjusted corporate tax rate to 4.75 percent.

12 DIVISION III — INSURANCE PREMIUMS TAX. The bill reduces
 13 the insurance premium tax on the gross amount of premiums
 14 received by an insurance company from 1 percent to .95 percent
 15 in calendar year 2025, and from .95 percent to .90 percent for
 16 the 2026 calendar year and subsequent calendar years.

17 DIVISION IV — SALE OF QUALIFIED STOCK — CAPITAL GAIN
 18 EXCLUSION. The bill amends Code section 422.7(43), which
 19 excludes the net capital gain on the sale of certain qualified
 20 stock and was enacted during the 2022 legislative session.

21 Under the bill, the definition of "employee-owner" is
 22 modified to include employment at any qualified corporation
 23 rather than an individual who owns capital stock in a qualified
 24 corporation for at least 10 years while employed and on account
 25 of that corporation. The bill modifies the definition of
 26 "Iowa affiliated group" within the definition of "qualified
 27 corporation" to include an affiliated group that is eligible to
 28 make a valid election to file an Iowa consolidated income tax
 29 return rather than an affiliated group that has made a valid
 30 election to file an Iowa consolidated income tax return. The
 31 bill modifies the definition of "member" within the definition
 32 of "qualified corporation" to include any entity that is
 33 eligible to be included in a consolidated return rather than
 34 any entity included in the consolidated return.

35 The division takes effect upon enactment and applies

1 retroactively to January 1, 2023, for tax years beginning on
2 or after that date.